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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
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MAY 6 1974

Mr. M. T. Allen, President
Government Services, Inc.
1135 21st Street, NW.
Washington, D.C. 20036

Dear Mr. Allen

In the course of our recently completed audit of the Corporation, we saw at first hand the progress that has been made in improving your financial operations and the constructive followthrough on our suggestions of last year. The results of the improved cash management and accounts payable practices are indicative of the benefits which were derived through your management improvement actions.

We thought it would be useful to summarize for you observations developed during the calendar year 1973 audit and not included in our report to the Board of Trustees. These matters, which are presented in some detail in the enclosed financial management summary, have been discussed with members of your staff and their comments have been considered in our presentation. The summary also highlights many of the actions taken in response to our April 1973 letter

At December 31, 1973, the issues presented did not have a material effect upon the fairness of your financial presentation. However, we did find it necessary to expand our tests of unit inventories and fixed assets because these items were not independently verified. The expanding of auditing techniques is not desirable and results in additional costs to the Corporation. Therefore, we have offered suggestions in the summary to preclude this for subsequent audits.

We appreciate the courtesies and cooperation afforded us by you and your staff. We will be happy to discuss the management summary with you or furnish additional information that might assist in your consideration of our observations

Sincerely yours,

H. L. Krieger

H. L. Krieger
Regional Manager

Enclosures

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ENCLOSURE

AUDIT OF
GOVERNMENT SERVICES, INC.
CALENDAR YEAR 1973
MANAGEMENT SUMMARY

U.S. General Accounting Office
Washington Regional Office
May 1974

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ADP OPERATIONS

As a part of this year's effort we reviewed selected aspects of the Corporation's computer system in an effort to update our data in that area and in preparation for a more extensive review of the revised system when it is implemented in the near future. As a result of this work, we would like to bring the following matters to your attention. These observations will be applicable not only to current operations but to the revised system as well.

LACK OF SUFFICIENT
BACKUP MAGNETIC TAPES

We noted that there was a need to improve the magnetic tape backup system. Currently, one backup tape containing all computer programs is maintained offsite at an official's home. However, no backup tapes containing accounting data are maintained offsite.

Adequate disaster safeguards require that installations have an adequate reconstruction plan in the event of partial or complete destruction of the ADP center and current files. Duplicate files should be stored in a safe place where it is unlikely that the same disaster would destroy both original and duplicate files.

The destruction of magnetic tapes containing financial and other data could seriously affect the Corporation's ability to continue operations efficiently. We suggest that additional backup tapes containing sufficient data to reconstruct files be maintained offsite with the backup tape of computer programs. In addition to maintaining tapes offsite, we believe these tapes should be kept in a locked and fireproof container which is not now done.

The Director of Data Processing concurred with our suggestion and informed us that action would be taken to store tapes containing cumulative data for the year offsite.

CONTROLS OVER BLANK CHECKS
NEED STRENGTHENING

Proper security for checks requires that they be physically controlled at all times to safeguard them from loss or theft. We observed approximately 27,000 blank payroll and 10,000 accounts payable checks stored in an unattended and unlocked storage area in the data processing section.

We were informed that this situation resulted from a lack of adequate facilities to secure the checks. Because of the danger of loss or theft, arrangements to properly secure these blank checks should be made and checks should be accessible to only properly authorized employees

NEED TO ESTABLISH CONTROLS
OVER DATA ENTERING AND LEAVING
THE DATA PROCESSING CENTER

We found no procedures in effect to provide a control over data entering and leaving the data processing center. In our opinion, this situation does not provide adequate assurance that only complete and authorized source data is accepted and processed by the computer and that all computer output products are accounted for and received by authorized persons.

We suggest that the Corporation establish an input/output clerk as a control point to monitor and control data entering and leaving the data processing center. This control clerk would insure that only authorized and complete source data is entered into the computer, that information flows through the center in a timely manner, and that all output products are received and accounted for by the designated person or activity.

The Director and the Assistant Manager of Data Processing concurred with our suggestion as to the need for an input/output clerk and informed us that they would consider our suggestion for establishing this control point.

ACCOUNTING MANUAL

Good accounting practice requires that each accounting system be documented in an organized manual of instructions. The manual should be comprehensive and not limited to general guidelines or general statements of principles, concepts, and practices. During our annual audits of the Corporation, we have frequently noted the desirability of developing an accounting manual

Lack of a written accounting manual results in procedures being handled by word of mouth and by occasional uncoordinated memos. This method is at best unreliable, time-consuming, and inconsistent. Because accounting policies and procedures are not documented, the loss of certain key personnel could hamper operations.

The Comptroller concurred in the need for an accounting manual and informed us that a manual will be developed when the accounting computer programs are rewritten this year. We suggest that development of a manual be given high priority by management and that sufficient resources be provided to execute it effectively.

A copy of the Comptroller General's Accounting Principles and Standards is enclosed. Section 32 of the principles and standards outlines the requirements for accounting manuals. Although not directly applicable to your operations, it may be useful in your efforts to develop an accounting manual.

INTERNAL AUDIT

Currently, the Corporation has no active internal audit function. We believe consideration of the benefits of such a function merits your attention.

Internal audit is an element of management control which provides independent reviews and appraisals within an organization to assure that assigned responsibilities and planned objectives are being carried out in the manner and with the results intended. Business management has found that the constructive services rendered by internal auditors in the form of recommendations, suggestions, and the gathering of specific information for management use have aided in meeting many problems of both large and small operations.

We were informed that the Corporation is considering the implementation of an internal audit function. We recommend that action be taken expeditiously to establish such a function and that it be positioned in the organizational structure in such a way as to ensure independence of the auditor from the officials who are directly responsible for the operations being reviewed.

We are enclosing a copy of the Comptroller General's statement on internal audit which we feel will provide you with a more expanded view of the benefits of internal audit.

CASH MANAGEMENT

In our April 1973 management letter we suggested that an evaluation be made of the Corporation's cash position to determine (1) the appropriate cash balance to have on hand and (2) the possibility of reducing the number of bank accounts maintained in order to facilitate control. We suggested that any cash above the desired level be invested.

Cash on hand was reduced 40 percent during the year from \$967,800 at December 31, 1972, to \$575,600 at December 31, 1973. In addition, at December 31, 1973, the Corporation had 13 active bank accounts of which 4 were in the Washington, D.C., area. This compares with 25 active accounts of which 10 were in the Washington area in early 1973.

Additional investments resulting from these cash improvement actions contributed to a \$97,000 increase in interest income for 1973. While actions taken represent substantial improvements, we urge management to continue monitoring cash to insure that the optimum level is maintained.

ACCOUNTS RECEIVABLEFUTURE IMPROVEMENTS IN
ACCOUNTS RECEIVABLE COLLECTIONS
PROCEDURES PLANNED

Our 1973 letter included a suggestion that accounts receivable collections procedures be revised to provide a more timely followup and collection of receivables. We suggested that followup action be initiated when an account is 30 days delinquent and that the Corporation establish guidelines for disallowing further credit to delinquent customers.

In following up on this matter this year, the Comptroller informed us that he is aware of the problems discussed in our 1973 report and that substantial improvements in accounts receivable will be made in the near future when the system's automated procedures are revised. He stated suggestions made by GAO will be considered at that time

HANDLING COSTS OF MEAL CHARGES

The Corporation has established procedures to allow patrons to charge meals at eight executive dining rooms. These charges are billed by the Corporation's Central Office. We understand that this privilege was instituted several years ago at the request of the various agencies.

To evaluate the cost of providing the charge service, we reviewed the charges for one accounting period in 1973 and estimated the cost to process the charge slips and bill the patrons. We found that for charges under \$2.00, handling costs totaled 18.5 percent of the sales. The results of our test, summarized below, cover all meal charges for the period in seven executive dining rooms. Detailed charges for the Supreme Court dining room were not readily available and were not substantial according to the Comptroller. Over 80 percent of the charges were made at the Department of State, Bureau of Standards, and Old Executive Office Building dining rooms.

<u>Charge sale</u>	<u>Number of charges</u>	<u>Percent of total</u>	<u>Estimated dollar value of charges</u>	<u>Estimated charge handling costs (note a)</u>	<u>Handling cost as a percent of sales</u>
\$2 and under	1,600	73 1	\$3,040	\$561	18.5
\$2.01 - \$5.00	437	20.0	1,223	153	12.5
\$5.01 - \$10.00	81	3.7	607	28	4.6
\$10.01 - up	<u>71</u>	<u>3 2</u>	<u>2,130</u>	<u>25</u>	1.2
Total	<u>2,189</u>	<u>100.0</u>	<u>\$7,000</u>	<u>\$767</u>	11 0

^a Estimated costs include computer time valued at \$370 per period, based on information provided by the Director of Data Processing; a portion of the salary of the accounts receivable clerk, valued at \$360; and additional costs of \$.10 per bill for mailed bills and \$.02 per bill for bills delivered to agencies for distribution. These costs were prorated on the basis of percentage of total charges.

Although there are conceivable circumstances which would justify continuance of this service, it appears that the high handling costs for the smaller charges warrant a management cost/benefit analysis to determine the advisability of continuing to provide this service. In your analysis you might want to consider such alternatives as adding a service charge to small sales or turning the charge system over to a professional charge service.

INVENTORY MANAGEMENTNEED FOR WRITTEN
INVENTORY PROCEDURES

The taking of physical inventories should be a well-planned and coordinated operation. Participants should be properly supervised, and written procedures for physical inventories should be available to the participants. We noted in our audit this year that the yearend physical inventories at the Maintenance Shop, Commissary, and Indian Room Gift Shop were hampered by the lack of written inventory-taking procedures. This matter was also presented in our 1973 management letter.

At the Maintenance Shop, for example, inventory items were again counted by shop personnel the day prior to the inventory and accounting personnel accepted the counts without further verification. This practice negates the value of providing accounting personnel to observe the inventory.

Although there had been substantial improvement in inventory methods at the Indian Room, i.e., the inventory was actually counted by teams which included a representative of the Inventory Controls Department, items were not marked to indicate which had been counted. Marking items gives inventory teams assurance that all items have been counted.

At the Commissary, we noted that participants from the Central Office were not properly instructed in their duties. One participant did not know why he was there or what was expected of him until a GAO staff member informed him that a physical inventory was being taken and he was expected to make or verify counts of items and record the results on a computer printout.

We again suggest that written instruction be prepared and made available to all employees participating in physical inventories. As a minimum, the instructions should provide guidance as to how the inventory teams will be organized; inventory staff procedures, handling of incoming purchases and goods issued during the inventory taking; recording of counts, including instruction on the use of prenumbered tags, reconciliation of inventory counts with accounting records, and procedures for making recounts and changes to the physical counts.

NEED FOR ADDITIONAL
CONTROLS OVER INVENTORIES

We were informed by the Manager of Inventory Controls that other than the Commissary, Indian Room Gift Shop, and the Maintenance Shop, inventories

at local units, valued at about \$350,000 at yearend, are not systematically observed by Central Office personnel. Although inventories at a few Parks units were observed last summer, the inventory reports of the unit managers are generally accepted as correct.

The Comptroller informed us that inventories at nonlocal units--Sequoia, Fontana, and Mt. Rainier--valued at \$400,000 also are not regularly observed at yearend. These inventories are under the control of the managers who report inventory valuations to the Central Office.

Proper internal controls require that inventories be periodically verified by persons independent of those immediately responsible for the inventory. Without such control, the accuracy of the asset valuation is subject to question. At December 31, 1973, about \$750,000 or half of the yearend inventory had not been independently verified.

Because the failure to independently verify yearend inventories could affect the fairness of the Corporation's financial presentation, we expanded our auditing procedures to satisfy ourselves as to the inventory balances. The expanding of auditing procedures is not desirable and results in additional costs to the Corporation.

We discussed this matter with the Comptroller and he agreed that there is a need for strengthened controls in this area. We suggest that GSI management establish procedures for independent verification of the yearend inventories at Sequoia, Mt. Rainier, and Fontana, and the inventories in local units.

We realize that implementation of this suggestion requires resources and the Manager of Inventory Controls advised us that he does not have sufficient people in his department to handle yearend inventories at locations other than the Commissary and Indian Room. Therefore, you may wish to consider taking the inventory on a cyclical basis. This would most likely be the best approach since many Parks units close in the fall and their inventories could be counted then. In addition, not all units need be counted each year.

You also may wish to consider the use of an independent firm to verify yearend inventories at nonlocal units. This method was employed in an October 1973 inventory at Mt. Rainier and we were informed that it was relatively economical.

ACCOUNTING RECORDS NOT
RECONCILED WITH PUBLIC
WAREHOUSE RECORDS AT YEAREND

In our review of inventories stored at Terminal Warehousing Company, we found that inventory items valued at \$3,789 had been received by the warehouse before yearend, but were not recorded in inventory by the Accounting Department until 1974. Since these items were available on December 31, 1973, their value should have been reflected in yearend inventory.

When this matter was brought to the attention of the Manager of Inventory Controls, he agreed that with appropriate procedures, errors similar to those which occurred in 1973 could be avoided in the future. Therefore, we suggest that procedures be established to require the reconciliation of the inventory accounts at yearend with the warehouse and that appropriate adjustments be made to the accounting records.

FIXED ASSETS

Proper accounting for fixed assets requires periodic physical inventories to verify the existence of such assets. Currently, the Corporation does not physically inventory fixed assets on a systematic basis.

Physical inventories of fixed assets should be taken at regular intervals to check the effectiveness of the accounting procedures in providing accurate information on all significant changes in property assets. The frequency of inventories depends on such things as the nature and value of property, physical security and control procedures relating to receipts, issues and custody, and the results of previous inventories. Differences between physical counts and accounting records should be investigated and records brought into agreement with actual counts.

The significance of the Corporation's investment in fixed assets--40 percent of total assets--requires that procedures be established for an organized inventory on a periodic basis. Furthermore, the failure to take periodic inventories required that we expand our audit procedures to satisfy ourselves as to the fixed assets balances. The use of expanded auditing techniques is not desirable and results in additional costs to the Corporation. Therefore, we suggest that periodic inventories of fixed assets be made and that accounting records be adjusted when discrepancies are noted.

PAYROLL

To test the propriety of the payroll and related expenses, we selected at random the pay of 58 individuals from the payroll of November 2, 1973. The results of our test are discussed in detail below.

TIMECARDS

In our 1973 management letter we suggested that the use of time-clocks be enforced and that timecards be approved by the unit manager or his designee.

Our test this year showed that cards were being properly approved. However, in a few instances, times worked were not recorded on the time-card although total hours worked were entered. We suggest that the unit managers be asked to place further emphasis on the use of timeclocks where they are available.

WITHHOLDING AUTHORIZATIONS--
FEDERAL INCOME TAX DEDUCTIONS

We noted in our audit that personnel files often did not contain withholding certificates for Federal income tax deductions or the withholding certificate on file did not agree with actual deductions. The Internal Revenue Service (IRS) requires that employers take into account an employee's marital status and number of exemptions in determining the appropriate amount of Federal income tax to be withheld. IRS further requires that, if an employee fails to furnish the necessary information, the employer must consider the employee to be single and to have no exemptions.

Our test of 58 employees showed that there were no withholding authorizations on file for 16 employees. Furthermore, all other employees in our test had authorizations which were dated after November 2, 1973, the date of the payroll tested. We were informed that the earlier authorizations had been discarded. It was therefore not possible to determine the accuracy of the amounts withheld on the November 2 payroll.

For this reason, on February 8, 1974, we tested at random 20 additional employees from the January 25, 1974, payroll. Seventeen withholding authorizations, all dated during December 1973, were on file for these employees. However, for five employees, the amounts being withheld did not agree with the authorization. For the three employees for whom no authorizations were on file, withholdings were less than the minimum required by IRS to be withheld in such cases. Thus for 40 percent of our

sample, withholdings were not proper. A followup review of the March 8 payroll indicated that this situation still existed.

The Director of Personnel stated that the Corporation had been updating the withholding authorization files and that a review would be made during the summer and action taken to obtain any missing forms. We suggest that these efforts be given high priority and that authorizations updated during the year be retained for at least 1 year to facilitate employee inquiries and for audit purposes.

WITHHOLDING AUTHORIZATIONS--
MEDICAL INSURANCE DEDUCTIONS

Our review of 58 employees showed that 32 of the employees participated in one of the Corporation's medical insurance plans. In reviewing the personnel files for these 32 employees we found cards authorizing the deduction for medical insurance for only 19 employees. Furthermore, 12 of the 19 cards were not signed by the employee affected and thus were not valid authorizations.

We were informed that at one time the Corporation required the employee to sign only one card which was forwarded to the insurance company. This policy was revised to require the employee to sign two cards so that the Corporation could retain a record of the authorization. In an effort to complete the files, Personnel Office employees had begun preparing cards for those who had not originally signed two cards, leaving the signature line blank.

Of the 26 employees not participating in the medical insurance plan, only 4 had signed cards indicating that they did not want to participate. We were informed that the policy of requiring new employees to sign a waiver statement was established only 18 months ago, and that there were no plans to obtain waiver cards from present employees not enrolled in a plan.

All medical insurance deduction authorizations or waivers should be obtained in writing to prevent possible misunderstanding concerning the coverage requested and provided. We therefore suggest that medical insurance cards be obtained from all employees. The Director of Personnel agreed with the desirability of doing this and stated that he would examine the matter.

WITHHOLDING AUTHORIZATIONS--
UNION DUES DEDUCTIONS

The lack of appropriate authorization for deductions for union dues was also encountered. Deductions for dues were made for 28 of the 58

sampld employees. Although the Director of Personnel informed us the signed deduction authorization is required by the Taft-Hartley Act, cards could not be located for 17 or 61 percent of the 28 employees.

We suggest that appropriately signed authorizations be obtained from all union workers.

FILING OF PERSONNEL
DOCUMENTS IS INCONSISTENT

The Personnel Department currently maintains a file for each type of personnel document. For example, all Federal income tax withholding forms are kept together and all bond deductions forms are kept together. However, this policy is not consistently followed. While most Federal income tax withholding forms are in the designated file, some are in the employee's general file instead. The same situation exists with bond deduction authorizations. In addition, the file for union dues authorizations is maintained by social security numbers, but authorizations received in the last year are not filed but are grouped by month or receipt.

Inconsistent filing of documents can mean delays, wasted time, and confusion. We therefore suggest that the filing system for personnel documents be reviewed and that the system which best suits the needs of the Personnel Department be followed consistently.